St. Joseph Health System
Supply Chain Organization

Medical Device Supply Chain Council
Mid-Year Meeting
Welcome

You never change things by fighting the existing reality. To change something, build a model that makes the old model obsolete.
The Saint Joseph Health System has approximately 3,549 beds

- **Southern California**
  - St. Mary Medical Center – Apple Valley, CA – 186 beds
  - St. Joseph Hospital – Orange, CA – 468 beds
  - St. Jude Medical Center – Fullerton, CA – 333 beds
  - Mission Hospital – Mission Viejo, CA – 272 beds
  - St. Joseph Health System Home Health Agency
  - St. Joseph Health System Home Care Services – Orange, CA
  - St. Joseph Heritage Healthcare – Fullerton, CA
System Family (cont.)

Northern California

St. Joseph Health System – Humboldt County
- St. Joseph Hospital – Eureka, CA 146 beds
- General Hospital Campus 74 beds
- Redwood Memorial Hospital – Fortuna, CA 46 beds

St. Joseph Health System – Napa Valley
- Queen of the Valley Hospital – Napa, CA 159 beds

St. Joseph Health System – Sonoma County, CA
- Santa Rosa Memorial Hospital – 345 beds
- Petaluma Valley Hospital – 80 beds

St. Joseph HealthCare Network
St. Joseph Health Foundation of Northern California
Texas

Covenant Health System

- Covenant Medical Center – Lubbock, TX – 819 beds
- Covenant Medical Center Lakeside – Lubbock, TX 400 beds
- Covenant Children’s Hospital – Lubbock, TX - 73 beds
- Covenant Hospital Levelland – Levelland, TX – 48 beds
- Covenant Hospital Plainview – Plainview, TX 100 beds
- Covenant Home Health Care – Lubbock, TX
- Covenant Medical Group – Lubbock, TX
Financial & Statistical Information

- 143,000 discharges
- 2.4 million outpatient visits
- 534,000 home health visits
- 1.7 million clinic visits
- Average length of stay is 4.92 days
- 19,000 FTEs
Supply cost of $496+ million is 14.3% of total net revenue.

Payor Mix
- 52% Managed care
- 35% Medicare
- 9% Medicaid
- 4% Other

The Health System carries a bond rating of Aa from Standard & Poors and Moodys on outstanding debt.
Provider Challenges

- Seismic improvements needed for California hospitals.
- Increase in the uninsured population (nationally 44 million persons are uninsured).
- Increasing consumer expectations.
- The Healthcare Insurance Portability and Accountability Act (HIPAA).
- Reimbursement does not match the level of care provided in market leading institutions and geographical locations.
- Labor market shortages (RNs, radiology, ultrasound & nuclear medicine techs and medical records coders).
- Technology increases are outpacing reimbursement.
Supply Chain Organization

- Jim McManus, Vice President-Finance
- Bruce Boulton, Corporate Director-Supply Chain
- Susan Wilson-Bromley, Corporate Manager-Supply Chain
- Bill Miller, Corporate Senior Buyer
- Roberta Brenton, Senior Contract Analyst
- Mary Roberts, Supply Chain Coordinator
- Tina Smith, PMM Data Analyst
- Sr. Diane Hejna, Director of Ecology Programs
- Ron Scott, Director of Clinical Supply Programs
- Sara Gibson, Med/Surg Liaison (Cardinal)
Collaborative Teams

- **Quarterly Meeting, Monthly Conference Call**
  - Materials
  - Operating Room
  - Pharmacy

- **Semi-Annual Meeting, Monthly Conference Call**
  - Laboratory
  - Radiology
  - FoodService

- **Annual Meeting, Monthly Conference Calls**
  - Cath Lab
  - Respiratory Therapy
  - Advanced Wound Care
  - Pharmacy Buyers

- **Monthly Conference Calls**
  - Clinical Pharmacists
  - PMM Data Management Team
  - Environmental Services
  - Physician Preference Product Advisory Council
Supply Chain Organization
Supply Chain Savings (approx. 5 yrs.)

- Total: 98.6 million
- Physician Preference: 37.8 million
- Clinical Program: 18.3 million
- Group Purchasing: 17.0 million
- Capital: 6.6 million
- Distribution: 10.0 million
- Information Technology: 6.2 million
- Reprocessing: 2.7 million
## Supply Cost as a % of Net Revenue

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<thead>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>System-Wide</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent</td>
<td>16.0%</td>
<td>15.7%</td>
<td>15.7%</td>
<td>15.2%</td>
<td>15.2%</td>
<td>15.0%</td>
<td>14.6%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Supply Delta</td>
<td>6,825,595</td>
<td>234,818</td>
<td>14,126,568</td>
<td>(90,216)</td>
<td>4,853,467</td>
<td>8,485,849</td>
<td>8,097,583</td>
<td></td>
</tr>
<tr>
<td>Cumulative Supply Delta</td>
<td>7,060,413</td>
<td>21,186,981</td>
<td>21,096,765</td>
<td>25,950,232</td>
<td>34,436,081</td>
<td>42,533,664</td>
<td></td>
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</tr>
</tbody>
</table>
Supply Composition FY2006

- Prosthesis: 27%
- Pharmaceuticals: 21%
- Other Medical Care Material: 17%
- Surgical Supplies-General: 11%
- Blood: 4%
- Other Non-Medical Supplies: 4%
- Food: 4%
- Office & Admin Supplies: 4%
- Surgical Packs & Sheets: 2%
- Other Minor Equipment: 2%
- Radioactive Material: 1%
- Sutures/Needles: 1%
- Instruments/Minor Equipment: 1%
- IV Solutions: 1%
- Forms, Printing & Duplicating: 1%
- Oxygen/Other Medical Gases: 1%
- Cleaning Supplies: 1%
- Radiology Films: 1%
- Employee Wearing Apparel: 1%
- Linen & Bedding: 1%
- Anesthetic Materials: 1%
Supply Chain Savings (approx. 4 yrs.)

- Total: 77.4
- Physician Preference: 33.7
- Clinical Program: 16.6
- Group Purchasing: 9.8
- Capital: 5.8
- Distribution: 5.0
- Information Technology: 4.4
- Reprocessing: 2.1

Savings in Millions
## Pharmacy as of 12/31/06

<table>
<thead>
<tr>
<th>Pharmacy</th>
<th>%</th>
<th>Increased Utilization</th>
<th>D/C Therapy</th>
<th>New Therapy</th>
<th>Cost Inc/(Dec)</th>
<th>Total Change</th>
<th>APD Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. Joseph, Orange</td>
<td>86.0%</td>
<td>-2.5%</td>
<td>-16.2%</td>
<td>14.4%</td>
<td>1.5%</td>
<td>-2.7%</td>
<td>3.2%</td>
</tr>
<tr>
<td>St. Jude</td>
<td>103.0%</td>
<td>7.7%</td>
<td>-13.6%</td>
<td>10.1%</td>
<td>0.5%</td>
<td>4.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Mission</td>
<td>77.6%</td>
<td>-8.9%</td>
<td>-13.7%</td>
<td>13.1%</td>
<td>1.9%</td>
<td>-7.6%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>St. Mary</td>
<td>90.6%</td>
<td>4.3%</td>
<td>-10.3%</td>
<td>13.8%</td>
<td>-0.3%</td>
<td>7.5%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Queen</td>
<td>99.6%</td>
<td>1.9%</td>
<td>-11.4%</td>
<td>15.9%</td>
<td>0.6%</td>
<td>7.1%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Santa Rosa</td>
<td>97.7%</td>
<td>1.6%</td>
<td>-17.3%</td>
<td>12.2%</td>
<td>-0.4%</td>
<td>-3.8%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Petaluma</td>
<td>82.1%</td>
<td>0.2%</td>
<td>-15.6%</td>
<td>13.6%</td>
<td>-0.4%</td>
<td>-2.2%</td>
<td>-13.7%</td>
</tr>
<tr>
<td>St. Joseph, Eureka</td>
<td>97.0%</td>
<td>1.4%</td>
<td>-15.2%</td>
<td>11.4%</td>
<td>2.6%</td>
<td>0.2%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Redwood</td>
<td>102.4%</td>
<td>-2.2%</td>
<td>-36.8%</td>
<td>22.9%</td>
<td>0.0%</td>
<td>-16.0%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Covenant - Lubbock</td>
<td>88.4%</td>
<td>14.3%</td>
<td>-12.2%</td>
<td>10.5%</td>
<td>0.0%</td>
<td>12.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Joe Arrington</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Covenant - Levelland</td>
<td>120.6%</td>
<td>2.1%</td>
<td>-26.5%</td>
<td>35.0%</td>
<td>-3.1%</td>
<td>7.4%</td>
<td>-12.5%</td>
</tr>
<tr>
<td>Covenant - Plainview</td>
<td>63.3%</td>
<td>-13.2%</td>
<td>-23.6%</td>
<td>19.4%</td>
<td>0.2%</td>
<td>-17.2%</td>
<td>4.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>89.9%</td>
<td>1.8%</td>
<td>-12.6%</td>
<td>11.1%</td>
<td>1.0%</td>
<td>1.4%</td>
<td>1.1%</td>
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</tbody>
</table>
Reprocessing Savings Trend

Total Savings to date is $2,748,473.
Supply Chain Department Cost Trend

Supply Chain Department Cost

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<tbody>
<tr>
<td></td>
<td>1,112,710</td>
<td>614,049</td>
<td>433,508</td>
<td>435,691</td>
<td>411,318</td>
<td>460,103</td>
<td>783,179</td>
</tr>
</tbody>
</table>

Fiscal Year Ending June 30
Supply Chain Initiative

- Reduce supply expense by $15 million on a cost per adjusted patient day/discharge basis and hold constant for at least 3 years (in process, over $77+ million documented).
- Obtain a guarantee for the aforementioned savings (achieved).
- Reduce supply expense by an additional $15 million by counting and recording unofficial inventories (achieved $8.8 million).
Supply Chain Initiative

- Reduce inventories by implementing an inventory reduction program *(marginal)*.
- Achieve a high degree of product standardization *(in process, several successes)*.
- Work with business partners to increase the annual savings from $15 million to $30 million *(achieved)*.
Supply Chain Initiative

- Select and install an integrated materials management system (achieved).
- Select and implement an e-commerce solution (achieved).
- Establish standard procurement policies and procedures (in process).
- Establish a capital review process (achieved).
Accomplishments (3/02-3/06)

People
- Restructured Health System Office Supply Chain Department.
- Formed 14 collaborative groups with monthly conference calls and periodic on-site meetings.

Capital
- Developed capital process using MD Buyline as the enabler to obtain the lowest price for equipment.
- Began focus on group-buy opportunities.

GPO
- Changed GPO relationship to MedAssets, HSCA.
- Implemented information technology to validate contract and line-item pricing.
Accomplishments (3/02-3/06)

**Distribution**
- Converted all Med./Surg. distribution to Cardinal along with the majority of manufactured agreements.
- Converted one hospital’s pharmacy distribution to Cardinal.
- Converted all food service distribution to Sysco.
- Converted blood fractions distribution to NSS.
- Implemented quarterly reviews with distributor.

**Physician Preference Supplies**
- With the assistance of Aspen, executed contracts with significant price reductions for orthopedics, cardiac rhythm management, cath lab and spine.
- Established a reporting tool to track savings on a monthly basis.
Accomplishments (3/02-3/06)

Clinical and Support Programs

- **Health System Clinical Pharmacist and clinical pharmacy program.**
- **Cardinal RxEsource program for pharmacy management.**
- **Cardinal value-added programs (value-link, PBDS, OPEX) implemented at various hospitals.**
- **Logistical consulting services.**
- **Health System wide supply inventory.**
Accomplishments (3/02-3/06)

Information Technology

- Implemented PMM, an integrated materiels management system on time and under budget.
- Consolidated 11 item masters, vendor files and other various files to one file.
- Implemented a reporting system for aggregation of purchases for negotiating contracts.
- Implemented an e-commerce system with GHX.
Medical Device Companies & Providers

How are we aligned?
Where are the challenges?
Mission

Provider Example
“To extend the Catholic health care ministry of the Sisters of St. Joseph of Orange, by continually improving the health and quality of life in the communities we serve.”

Medical Device Company
Improving the health and quality of life of individuals should be at the center of most Medical Device Companies mission statements.
Group Purchasing Organizations (GPOs)

Medical Device Company Philosophy
Most medical device companies believe their products are not a commodity and feel that GPO contracts are not a benefit because market share cannot be driven by a GPO, but rather a provider or within a provider’s group of hospitals.

Provider
Most providers will tend to agree with this statement.

How about Administrative Fees???
Top-Down vs. Collaborative Provider Organizations

Most top-down provider organizations act and react quicker to changes in market conditions. Relationships within the organization may not be as key as collaborative organizations. Collaborative organizations decision making processes tend to be much slower.

Medical Device Companies usually agree with the above statement.
Provider
Reimbursement from most sources (Medicare, MediCaid, Health Plans, Indigent Care Programs) does not match the level of care provided to the patient. A governmental action is always on the horizon and the provider community has little time to react to the changes (less than 1 year).

Medical Device Companies...
Will tend to agree with the above statement and will also advocate for increased reimbursement, especially in their areas of product expertise.
Free Market?

Provider
No. Provider currently absorbs a large portion of new technology cost and legislative changes.

Medical Device Companies
Yes. Costs in developing new technologies along with the manufacturing process, hurdle rates and EPS requirements are calculated in the sales price of the product.
### Proposed Payment Reductions for Coronary Stent and Related DRGs

<table>
<thead>
<tr>
<th>DRG</th>
<th>Description</th>
<th>% change v. FY 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>555</td>
<td>Percutaneous Cardiovascular Procedures with MCV</td>
<td>-21%</td>
</tr>
<tr>
<td>556</td>
<td>Bare Metal Stent without MCV</td>
<td>-34.1%</td>
</tr>
<tr>
<td>557</td>
<td>Drug Eluting Stent with MCV</td>
<td>-23.5%</td>
</tr>
<tr>
<td>558</td>
<td>Drug Eluting Stent without MCV</td>
<td>-33.4%</td>
</tr>
<tr>
<td>518</td>
<td>EP Procedures without Stent</td>
<td>-28.9%</td>
</tr>
</tbody>
</table>

### Proposed Payment Reductions for ICD and Pacemaker Implant DRGs

<table>
<thead>
<tr>
<th>DRG</th>
<th>Description</th>
<th>% change v. FY 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>515</td>
<td>ICD Implant without Cardiac Catheterization</td>
<td>-22.6%</td>
</tr>
<tr>
<td>535</td>
<td>ICD Implant with Cardiac Catheterization with AMI/HF/Shock</td>
<td>-23.8%</td>
</tr>
<tr>
<td>536</td>
<td>ICD Implant with Cardiac Catheterization without AMI/HF/Shock</td>
<td>-22.2%</td>
</tr>
<tr>
<td>551</td>
<td>Pacemaker Implant with MCV</td>
<td>-12.5%</td>
</tr>
<tr>
<td>552</td>
<td>Pacemaker Implant without MCV</td>
<td>-13.3%</td>
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### Proposed Payment Reductions for CABG DRGs

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<tr>
<th>DRG</th>
<th>Description</th>
<th>% change v. FY 2006</th>
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</thead>
<tbody>
<tr>
<td>547</td>
<td>CABG with Cardiac Catheterization with MCV</td>
<td>-5.4%</td>
</tr>
<tr>
<td>548</td>
<td>CABG with Cardiac Catheterization without MCV</td>
<td>-8.8%</td>
</tr>
<tr>
<td>549</td>
<td>CABG without Cardiac Catheterization with MCV</td>
<td>-1.3%</td>
</tr>
<tr>
<td>550</td>
<td>CABG without Cardiac Catheterization without MCV</td>
<td>-1.4%</td>
</tr>
</tbody>
</table>

### Proposed Payment Reductions for Non-Coronary Vascular DRGs

<table>
<thead>
<tr>
<th>DRG</th>
<th>Description</th>
<th>% change v. FY 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>479</td>
<td>Other Vascular Procedures w/out CC</td>
<td>-9.2%</td>
</tr>
<tr>
<td>553</td>
<td>Other Vascular Procedures with CC and MCV</td>
<td>-5.6%</td>
</tr>
<tr>
<td>554</td>
<td>Other Vascular Procedures with CC without MCV</td>
<td>-3.1%</td>
</tr>
<tr>
<td>533</td>
<td>Extracranial Procedures with CC</td>
<td>-2.6%</td>
</tr>
<tr>
<td>534</td>
<td>Extracranial Procedures without CC</td>
<td>-2.3%</td>
</tr>
</tbody>
</table>
Medical Device Company
We abide by the HIPAA guidelines and have our own internal controls to protect and safeguard patient information. We do not need to sign a Provider HIPAA agreement. We do not receive patient confidential information directly from Providers.

Providers
A HIPAA business associate agreement is required since the Company “may be exposed” to patient confidential information by their presence in the Provider’s facility(s).
Stark vs. AdvaMed

Provider
Providers are prohibited from taking any action that results in payment to a physician, physician practice or a group. All actions must be clearly and fully documented. Stark is mandated and punishable by fines and imprisonment if breached.

Medical Device Companies
AdvaMed was created to appease the government and to avoid governmental legislation. Membership and compliance is voluntary. Oversight is narrow and weak. Does not fully address physician relationships.
Who is the Customer?

Provider Perspective
The Provider (Hospital) is the customer. After all, they pay the bills.

Medical Device Company Perspective
The Physician is the customer. After all, they use the products.
Confidentiality of Data

**Provider**
Confidentiality should extend only to individual sharing of data with other providers/IDNs and with the competitors of the medical device company. Benchmarking is okay.

**Medical Device Company**
Data is proprietary to the medical device company and should not be shared with any party without the express written consent of the medical device company.
Other Thoughts?